

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name OSCODA-WURTSMITH AIRPORT AUTHORITY	County IOSCO
Fiscal Year End 09/30/2007	Opinion Date 01/10/2008	Date Audit Report Submitted to State 01/28/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

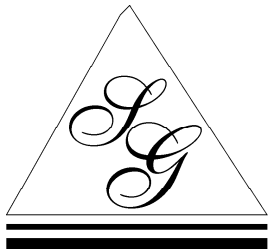
Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>	
Other (Describe)		<input type="checkbox"/>	
Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.		Telephone Number (989) 362-4491	
Street Address 325 NEWMAN STREET, PO BOX 592		City EAST TAWAS	State Zip MI 48730
Authorizing CPA Signature Don Brannan <small>Digitally signed by Don Brannan DN: cn=Don Brannan, o=us, email=donwb@stephensongracik.com, c=US Date: 2008.01.25 09:24:31 -0500</small>		Printed Name DONALD W. BRANNAN License Number 1101021039	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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OSCODA-WURTSMITH AIRPORT AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2007

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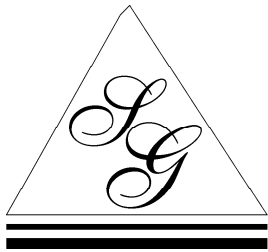
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January 10, 2008

Independent Auditors' Report

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Oscoda-Wurtsmith Airport Authority, Iosco County, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the Oscoda-Wurtsmith Airport Authority's basic financial statements as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities of the Oscoda-Wurtsmith Airport Authority, Iosco County, Michigan, as of September 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008, on our consideration of the Oscoda-Wurtsmith Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.



OSCODA-WURTSMITH AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Oscoda-Wurtsmith Airport Authority**, (the Authority) we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2007.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$25,827,933 (*net assets*) for the fiscal year reported. Of this amount, \$1,116,481 (*unrestricted net assets*) represents the portion available for spending.
- The Authority's total current liabilities increased by \$4,923,656 over the course of the year's operations. This increase was a result of the Authority recording \$4,962,988 of resources that were received as deferred revenue because they were not earned in the current year.
- The Authority's total net assets increased by \$3,195,768 or 14% over the course of the year's operations. This increase was a result of the Authority recognizing a state grant of \$2,269,022 from the Michigan Department of Transportation for the construction of a large aircraft maintenance hangar. The Authority also received capital contributions of \$1,654,936 consisting both of land and buildings from the U.S. Air Force and state contract grants administered by the Michigan Department of Transportation.
- The Authority's operating expenses in fiscal year 2006/2007 were \$336,136 higher than fiscal year 2005/2006 due to increases in both building maintenance and depreciation expense. In the current year, the Authority incurred building maintenance costs of over \$174,000 for abatement services to remedy mold and asbestos problems.
- The Authority's operating revenues in fiscal year 2006/2007 were \$69,269 higher than fiscal year 2005/2006 due to an increase in building rental income.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented in Exhibit D of this report.

Analysis of Financial Position:

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Summary of Net Assets:

The following summarizes the net assets of the Oscoda-Wurtsmith Airport Authority:

	Net Assets Summary	
	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Current Assets	\$ 3,399,627	\$ 1,350,858
Capital Assets – net	<u>27,631,272</u>	<u>21,557,180</u>
Total Assets	<u>31,030,899</u>	<u>22,908,038</u>
Current Liabilities	5,162,412	238,756
Long-Term Liabilities	<u>40,554</u>	<u>37,117</u>
Total Liabilities	<u>5,202,966</u>	<u>275,873</u>
Net Assets		
Invested in Capital Assets	24,711,452	21,557,180
Unrestricted	<u>1,116,481</u>	<u>1,074,985</u>
Total Net Assets	<u>\$ 25,827,933</u>	<u>\$ 22,632,165</u>

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of September 30, 2007, amounted to \$27,631,272 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, machinery and equipment and construction in progress. Capital assets for the Authority increased by \$6,074,092. Land and building increased as a result of the Authority receiving donated property from the United

States Air Force in the current year. Construction in progress increased due to costs incurred through September 30, 2007 in conjunction with the federal and state project grants that were not completed in the current year. Land improvement increases include various improvements to airport runways, taxiways, lights, hangers and aprons. Machinery and equipment increase represents purchases of various equipment. Total depreciation expense for this year amounts to \$1,090,037 with ending accumulated depreciation being \$8,083,939.

Capital Assets Summary
(Net of depreciation)

Land	\$ 1,614,313
Construction in progress	6,410,114
Land improvements	7,874,272
Buildings and improvements	11,437,928
Machinery and equipment	<u>294,645</u>
Capital Assets - net	<u>\$ 27,631,272</u>

Additional information on capital assets can be found in Note 3 of the audit, notes to financial statements.

Compensated Absences. Compensated absences for the Authority at fiscal year end amount to \$40,554. This is the accumulated amount of benefits set aside for vested employees. Accrued leave benefits are shown as a liability on the financial statements.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of the Oscoda-Wurtsmith Airport Authority:

	<u>September 30, 2007</u>	<u>September 30, 2006</u>
Operating revenues	\$ 876,483	\$ 807,214
Non operating revenues	<u>2,609,958</u>	<u>1,418,312</u>
Total revenues	<u>3,486,441</u>	<u>2,225,526</u>
Depreciation expense	1,090,037	846,453
Other operating expense	<u>855,572</u>	<u>733,020</u>
Total expenses	<u>1,945,609</u>	<u>1,579,473</u>
Gain before contributions	1,540,832	646,053
Capital contributions	<u>1,654,936</u>	<u>14,009,396</u>
Change in Net Assets	3,195,768	14,655,449
Beginning Net Assets	<u>22,632,165</u>	<u>7,976,716</u>
Ending Net Assets	<u><u>\$ 25,827,933</u></u>	<u><u>\$ 22,632,165</u></u>

Economic Factors and Next Year's Budget and Rates

The management of the Authority considered many factors in setting the fiscal year 2007/2008 budget. The overriding factor has been to keep expenses at or below the amount of revenue. The Authority does not receive any operations or maintenance income from taxes or other outside sources, and is dependent on generating its own operating funds. With the exception of FAA Airport Improvement Grants designated for specific projects, the vast majority of revenue comes from rental of facilities and fees imposed for certain aeronautical activities. Since the Authority's creation in 1994, revenue has varied from year to year. This is due to the turnover of the major aviation tenants, and the fallout of the 9/11 economic downturn, especially in aviation. Since 2003 there has been a slow but steady increase in the airport's revenue stream. Demand for additional wide-body aircraft hangar facilities by the Authority's main aviation

tenant caused the Authority to pursue funds in the amount of \$8.75 million to construct such a hanger. As a result of that effort, MDOT granted \$5 million to the Authority for construction of a wide body aircraft hanger. The tenant has committed to prepayment of 18 years rent in the amount of \$3.75 million to be used for construction of the hanger that was paid for up front. This additional hangar would likely lead to 200-300 more skilled workers, as well as enhance the opportunity to attract other aircraft support industries and suppliers.

The most significant expense remains employee related costs. Following are the fixed costs, such as utilities, and insurance. The remaining portion of the budget is prioritized and divided into the operating expense categories such as supplies and services, maintenance, and capital improvements. In addition, every attempt is made to retain a surplus to cover contingencies and the local share of current and any future grants the Airport is seeking and may be awarded.

Requests for Information

This financial report is designed to provide a general overview of the Oscoda-Wurtsmith Airport Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Airport Manager, 3961 E. Airport Drive, Oscoda, Michigan 48750.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
 September 30, 2007
With Comparative Totals for September 30, 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 3,147,911	\$ 1,122,521
Investments (Note 2)	171,938	163,972
Accounts receivable	63,580	27,061
Due from state	3,510	1,360
Due from local units	<u>12,688</u>	<u>35,944</u>
Total current assets	3,399,627	1,350,858
Noncurrent assets:		
Capital assets, net (Note 3)	<u>27,631,272</u>	<u>21,557,180</u>
Total Assets	<u>31,030,899</u>	<u>22,908,038</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	179,707	131,428
Due to state	0	81,164
Deposits payable	19,717	19,063
Deferred revenue (Note 4)	<u>4,962,988</u>	<u>7,101</u>
Total current liabilities	5,162,412	238,756
Long-term liabilities:		
Compensated absences payable (Note 5)	<u>40,554</u>	<u>37,117</u>
Total Liabilities	<u>5,202,966</u>	<u>275,873</u>
<u>Net Assets</u>		
Invested in capital assets (Note 1)	24,711,452	21,557,180
Unrestricted	<u>1,116,481</u>	<u>1,074,985</u>
Total Net Assets	<u>\$ 25,827,933</u>	<u>\$ 22,632,165</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS
 For the Year Ended September 30, 2007
With Comparative Totals for the Year Ended September 30, 2006

	<u>2007</u>	<u>2006</u>
<u>Operating Revenue</u>		
Landing fees	\$ 805	\$ 5
Fuel fees	2,920	5,748
Building rental	848,390	776,284
Miscellaneous	<u>24,368</u>	<u>25,177</u>
Total operating revenue	<u>876,483</u>	<u>807,214</u>
<u>Operating Expenses</u>		
Wages, taxes and benefits	321,155	317,011
Compliance and training	3,496	2,619
Advertising	1,510	1,738
Bad debt expense	20	0
Dues and subscriptions	2,266	2,193
Building maintenance	209,072	24,370
Field maintenance	17,661	17,646
Insurance	57,430	61,092
Operating supplies	9,805	8,408
Postage	2,090	1,619
Professional services	83,617	181,264
Radio equipment maintenance	4,272	4,611
Travel	3,486	2,693
Utilities	99,298	57,038
Vehicle maintenance	34,581	46,004
Scholarships	2,534	950
Refuse service	3,279	3,764
Depreciation	<u>1,090,037</u>	<u>846,453</u>
Total operating expenses	<u>1,945,609</u>	<u>1,579,473</u>
Operating loss	<u>(1,069,126)</u>	<u>(772,259)</u>
<u>Non-Operating Revenue</u>		
Federal revenue	264,329	818,043
State revenue	2,269,022	0
Contributions from local units	0	530,000
Interest earned	76,607	44,719
Private contributions	0	18,000
Gain on sale of capital assets	<u>0</u>	<u>7,550</u>
Total non-operating revenue	<u>2,609,958</u>	<u>1,418,312</u>
Gain before contributions	1,540,832	646,053
Capital contributions	<u>1,654,936</u>	<u>14,009,396</u>
Change in net assets	3,195,768	14,655,449
Net assets - beginning of year	<u>22,632,165</u>	<u>7,976,716</u>
Net assets - end of year	<u>\$ 25,827,933</u>	<u>\$ 22,632,165</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 For the Year Ended September 30, 2007
With Comparative Totals for the Year Ended September 30, 2006

	<u>2007</u>	<u>2006</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 840,618	\$ 794,320
Cash paid to suppliers and employees	<u>(852,823)</u>	<u>(668,404)</u>
Net cash provided (used) by operating activities (Note 8)	<u>(12,205)</u>	<u>125,916</u>
<u>Cash Flows From Non-Capital Financing Activities</u>		
Contributions received	<u>0</u>	<u>548,000</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Federal grants received	287,585	782,099
State grants received	3,482,010	0
Capital contributions received	830,180	7,101
Acquisition and construction of capital assets	<u>(2,630,821)</u>	<u>(927,391)</u>
Net cash provided (used) by capital and related financing activities	<u>1,968,954</u>	<u>(138,191)</u>
<u>Cash Flows From Investing Activities</u>		
Proceeds from sales of capital assets	0	7,550
Proceeds from sales and maturities of investments	0	100,000
Interest on investments	<u>68,641</u>	<u>37,655</u>
Net cash provided by investing activities	<u>68,641</u>	<u>145,205</u>
Net increase in cash and cash equivalents	2,025,390	680,930
Cash and cash equivalents - beginning of year (Note 1)	<u>1,122,521</u>	<u>441,591</u>
Cash and cash equivalents - end of year (Note 1)	<u>\$ 3,147,911</u>	<u>\$ 1,122,521</u>
<u>Non-Cash Capital and Related Financing Activities</u>		
Capital asset acquisition costs paid directly by the Michigan Department of Transportation	\$ 289,058	\$ 2,177,311
Land and Buildings received from the Federal Government	1,365,878	11,832,085
Capital asset acquisition costs paid directly by private sources	<u>2,919,820</u>	<u>0</u>
Total non-cash capital and related financing activities	<u>\$ 4,574,756</u>	<u>\$ 14,009,396</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda-Wurtsmith Airport Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Oscoda-Wurtsmith Airport Authority operates under the supervision and control of a Board of seven members consisting of: the Supervisor for each of the Charter Townships of Oscoda and AuSable and the Township of Greenbush; appointees of the County Board of Commissioners for Iosco and Alcona Counties and two at-large members.

The accompanying basic financial statements of the Airport Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Airport Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

C. Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. Government wide financial statements report information about the Oscoda-Wurtsmith Airport Authority as a whole. The Authority has only one fund which is business-type in nature, so the financial statements present one set of statements that meets both the government-wide and fund requirements.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

A statement of net assets provides information about the assets, liabilities, and net assets of the Authority at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy Authority obligations. Invested in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operation purposes.

A statement of revenue, expenses and changes in net assets provides information about the Authority's financial activities during the year ended September 30, 2007. Revenue and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Operating revenues and expenses generally result from providing the use of building facilities and aeronautical activities. Other revenues, such as federal and state grants, FAA airport improvement grants designated for specific projects and contributions, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of maintaining airport property, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the Authority's sources and uses of cash and cash equivalents during the year ended September 30, 2007. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

D. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and repurchase agreements, and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

Receivables at September 30, 2007, consist of accounts (fees). All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The balances consist primarily of charges for airport services due from various customers.

H. Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently. Donated fixed assets are recorded at their fair market values as of the date received.

I. Capital Contributions

Capital Contributions consists of land and buildings received from the U.S. Air Force and federal and state contract grants administered by the Michigan Department of Transportation. The federal revenues fall under the Single Audit Scope of the Michigan Department of Transportation.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by any advancements used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Authority, these revenues are charges for services for building rentals and landing and fuel fees. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Authority has identified as probable of receiving payment in the future. The amount is based on accumulated sick and vacation leave and employee wage rates at year end taking into consideration limits specified in the Authority's termination policy.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Airport Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	\$ 3,147,911
Investments	<u>171,938</u>
	<u>\$ 3,319,849</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 172,322
Investment in financial institution pooled funds and repurchase agreement securities	3,147,429
Petty Cash	<u>98</u>
Total	<u>\$ 3,319,849</u>

As of September 30, 2007, the Authority had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ 924,000	Daily
Repurchase agreements – public funds	<u>2,223,429</u>	Daily
	<u>\$ 3,147,429</u>	Daily

Credit Risk

State law authorizes investments in accordance with Act 196, PA 1997 and in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local governmental unit in Michigan. The Authority's investment pool and repurchase agreement investment sweep accounts are held at National City Bank and are both unrated.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of September 30, 2007, \$71,938 of the Authority's bank balance of \$199,680 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The following are investments of the Authority that represent more than 5% of the Authority's total investments:

- National City Bank investment sweep account consisting of repurchase agreements of public funds which represents 71% of the Authority's total investments.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Authority's investment policy which is in accordance with State law.

At year end the Authority's investment in National City Bank's investment sweep account consisting of repurchase agreements of public funds was \$2,223,429. This investment was exposed to custodial credit risk because it was uninsured and held by the counterparty's trust department or agent, not in the Authority's name.

Interest Rate Risk and Foreign Currency Risk

The Authority's investment policy does not address interest rate risk or foreign currency risk.

Investments:

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2007, was as follows:

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
Capital Assets Not Being Depreciated:				
Land	\$ 1,256,477	\$ 357,836	\$ 0	\$ 1,614,313
Construction in Progress	948,267	5,461,847	0	6,410,114
Subtotal	<u>2,204,744</u>	<u>5,819,683</u>	<u>0</u>	<u>8,024,427</u>
Capital Assets Being Depreciated:				
Land Improvements	10,529,454	319,738	0	10,849,192
Buildings and Improvements	10,953,985	1,006,894	0	11,960,879
Machinery and Equipment	4,862,899	17,814	0	4,880,713
	<u>26,346,338</u>	<u>1,344,446</u>	<u>0</u>	<u>27,690,784</u>
Less Accumulated Depreciation	<u>(6,993,902)</u>	<u>(1,090,037)</u>	<u>0</u>	<u>(8,083,939)</u>
Net Capital Assets Being Depreciated	<u>19,352,436</u>	<u>254,409</u>	<u>0</u>	<u>19,606,845</u>
Capital Assets – Net of Depreciation	<u>\$ 21,557,180</u>	<u>\$ 6,074,092</u>	<u>\$ 0</u>	<u>\$ 27,631,272</u>

Capital assets are stated at cost. Depreciation is calculated using the straight-line basis at the rate of 2.5% to 20% per year. The estimated useful lives are as follows:

Land improvements	15 years
Buildings and improvements	10 – 40 years
Machinery and equipment	5 – 10 years

NOTE 4 - DEFERRED REVENUE

The Airport Authority deferred revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
State grant revenue	\$ 1,212,988
Building rental income	<u>3,750,000</u>
Total	<u>\$ 4,962,988</u>

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 5 - COMPENSATED ABSENCES PAYABLE

The Airport Authority has an employee benefit plan that allows employees to accumulate sick pay days at the rate of one day per month up to a maximum of 90 days. The Authority also has a vacation pay policy which allows employees to carryover any unused vacation leave and is payable upon separation from employment. The amount of accumulated sick pay and vacation pay liability for the Airport Authority at September 30, 2007 was \$40,554.

The following is a summary of compensated absence transactions of the Airport Authority for the year ended September 30, 2007:

	<u>Compensated Absences</u>
October 1, 2006	\$ 37,117
Additions	<u>3,437*</u>
September 30, 2007	<u>\$ 40,554</u>

(*) Represents net of additions and reductions for the year.

NOTE 6 - RETIREMENT PLAN

The Airport Authority has a non-standardized money purchase pension plan with ING Life Insurance and Annuity Company, a deferred contribution pension plan, effective January 1, 1995 and as amended January 1, 2002. All full time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, have completed one year of service and have attained age 21. Vesting is 100% after six years of participation in the plan.

The Airport Authority is required to contribute 10% of the annual compensation of all eligible participants.

During the year, the Airport Authority's required and actual contributions amounted to \$22,626.

No pension provision changes occurred during the year that affected the required contributions to be made by the Airport Authority or its employees. Plan provisions and contribution requirements are established and may be amended by the Airport Authority Board.

NOTE 7 - LEASE

The Airport Authority, through assignment from Oscoda Township except for utilities, has a lease with the United States Air Force for various facilities and offices located on the former Wurtsmith Air Force Base, Iosco County, Michigan. The lease term is indefinite and the Authority was not required to pay any rental payments for the year ended September 30, 2007.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2007

NOTE 8 - RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (1,069,126)
Adjustments to reconcile operating loss to net cash used by operating activities:	
MDOT costs included in expenses	171
Depreciation	1,090,037
Bad debt expense	20
Changes in assets and liabilities:	
Increase in accounts receivable	(36,519)
Increase in accounts payable	(879)
Increase in compensated absences payable	3,437
Increase in deposits payable	<u>654</u>
Net cash used by operating activities	<u>\$ (12,205)</u>

NOTE 9 - RISK MANAGEMENT

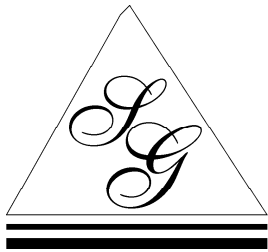
The Airport Authority is exposed to various risks of loss related to property loss, torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Airport Authority continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 10 - CONTINGENCIES AND CONTRACTS

The Airport Authority has elected, under the Michigan Employment Security Act, to be a reimbursing employer. In making this election, the Airport Authority has warranted that it will reimburse the State for all benefits paid by the State to qualified individuals for unemployment compensation. No liabilities have been incurred as of September 30, 2007.

NOTE 11 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Airport Authority's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

January 10, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
Iosco County, Michigan

We have audited the financial statements of the business-type activities of the Oscoda-Wurtsmith Airport Authority, as of and for the year ended September 30, 2007, which collectively comprise the Oscoda-Wurtsmith Airport Authority's basic financial statements and have issued our report thereon dated January 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oscoda-Wurtsmith Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oscoda-Wurtsmith Airport Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oscoda-Wurtsmith Airport Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Oscoda-Wurtsmith Airport Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Oscoda-Wurtsmith Airport Authority's financial statements that is more than inconsequential will not be prevented or detected by the Oscoda-Wurtsmith Airport Authority's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

Separation of Duties in the Performance of Functions

The present system of internal accounting controls does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate to account for the financial activity of the Airport Authority but could be strengthened by a few minor changes in the personnel assigned to perform certain functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

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Financial Statement Preparation

The Oscoda-Wurtsmith Airport Authority prepares various financial information throughout the year to assess operations and the financial condition of the Airport Authority. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Airport Authority relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Oscoda-Wurtsmith Airport Authority has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Airport Authority is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Airport Authority would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Oscoda-Wurtsmith Airport Authority's internal control.

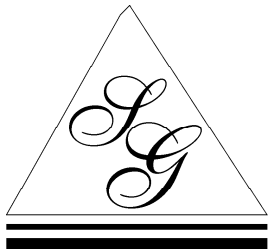
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oscoda-Wurtsmith Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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January 10, 2008

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Oscoda-Wurtsmith Airport Authority for the year ended September 30, 2007, and have issued our report thereon dated January 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 22, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Oscoda-Wurtsmith Airport Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Oscoda-Wurtsmith Airport Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Oscoda-Wurtsmith Airport Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Oscoda-Wurtsmith Airport Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Oscoda-Wurtsmith Airport Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Oscoda-Wurtsmith Airport Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Oscoda-Wurtsmith Airport Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Oscoda-Wurtsmith Airport Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendation s:

Separation of Duties in the Performance of Functions

The present system of internal control does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate for the financial activity of the Airport Authority, but could be strengthened by a few minor changes in the personnel assigned to perform certain cash functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

Financial Statement Preparation

The Oscoda-Wurtsmith Airport Authority prepares various financial information throughout the year to assess operations and the financial condition of the Airport Authority. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Airport Authority relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Oscoda-Wurtsmith Airport Authority has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Airport Authority is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Airport Authority would not be in a position to detect the errors or omissions.

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
January 10, 2008
Page Three

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Authority.

This information is intended solely for the use of management, the Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.